

COBO Modified Expansion



January 2008

SUMMARY OF WAYNE COUNTY EXECUTIVE ROBERT FICANO'S
COBO HALL EXPANSION PROPOSAL

Cobo Expansion

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Background

The past decade has seen much debate over the future of Cobo Hall as a regional asset. Despite the extensive, and sometimes contentious, debate, there is now a general consensus on the following points:

- There is a major need for renovation of Cobo Hall;
- There is a need to expand Cobo Hall in order to insure that the North American International Auto Show maintains its critical international status; and
- The vast majority of stakeholders agree that if Cobo Hall is truly a regional asset, then its ownership and management structure should reflect the regional stakeholders that finance its capital improvements.

Robert Ficano's modified plan for Cobo Hall renovation and expansion addresses all of these major themes in a very fiscally responsible and conservative manner.

David Sowerby's Economic Impact Study

Before describing the specifics of the Cobo Hall plan, it is important to understand the economic case for renovating and expanding the convention center. Put simply, the State of Michigan cannot afford to lose the economic impact of Cobo Hall and its largest show, the North American International Auto Show. In order to make sure that we achieved a base understanding of the economic impact, Wayne County contacted noted economist, David Sowerby, to conduct an independent economic impact study on Cobo Hall. To insure that all of the relevant questions were asked, we solicited the direct input from all of the stakeholders on the scope of the analysis from Mr. Sowerby. As a result, both Oakland and Macomb County expressly contributed to the scope of service. The resulting report very conservatively shows a total economic impact to the tri-county region of \$600 million annually. Specific highlights of the economic report include:

- ✓ Over 16,600 jobs are directly tied to Cobo Hall activities, with 80% of those jobs directly tied to the North American International Auto Show. That means 9900 jobs in Detroit/Wayne County, almost 5,000 jobs in Oakland County, and over 1600 jobs in Macomb County.
- ✓ The economic impact of Cobo Hall to Oakland County is approximately \$180 million annually, an \$18 to \$1 annual return on investment. Further, Oakland County receives 30% of the economic benefit from Cobo Expansion and yet its tax contribution to support Cobo Hall is less than 20%
- ✓ Macomb County receives approximately \$60 million annually in economic impact with a net annual contribution of taxes collected of less than \$5 million, a \$12 to \$1 annual return on investment.

The Cobo Hall Renovation and Expansion Plan

The plan calls for a total renovation of the current Cobo Hall Convention Center and a 120,000 square foot expansion. The total cost of both the renovation and expansion based on figures presented by a partnership of Walbridge Aldinger, Hines and Barton Malow, is \$323 million. This represents a reduction of 150,000 square feet of expansion from the December 2006 Ficano plan and also results in a reduction in the construction costs by over \$100 million. This figure includes the cost of constructing two covered moving walkways to directly connect the convention center to both the Renaissance Center and the Sheraton Ponchatrain Hotel. This need was uncovered by a KPMG report done for the Convention and Visitors Bureau several years ago in surveying potential conventioners about the impediments to bringing a show to Detroit.

The Plan calls for the sale of Cobo Hall from the City of Detroit to a new regional convention authority made up of appointees of the Governor, the County Executives of Oakland and Wayne Counties, the Chair of the Macomb County Commission, and the Mayor of the City of Detroit. Each of the public appointees would be required to be a non-employee of the government so that there is private sector management working cooperatively with public sector ownership and oversight.

To prevent any further financial drains to the public entities who would now own and manage Cobo Hall, the plan calls for the establishment of a \$142 million operating endowment to offset the deficit that is always expected in operating a large convention center. That operating endowment will generate at least \$9 million annually to offset costs. Coupled with the ability to improve operational efficiencies and increase revenues, we anticipate that the annual \$15 million current operating deficit will be eliminated.

The Funding Mechanism

The entire Cobo Hall Renovation and Expansion Plan can be funded with only a seven year extension to the existing hotel and liquor taxes that are part of today's Convention Facility Development Fund. Those two revenue streams are currently set to expire in 2015 and this plan would simply extend them to 2022. There are no new taxes or tax rate increases needed to fund the plan. Additionally, the State of Michigan will contribute a total of \$150 million to the Expansion Plan in order to assist the 83 Michigan Counties that currently rely upon revenues derived from the excess liquor tax distributions. While the State of Michigan utilized those funds to help eliminate the state deficit in 2007, there were some assurances made that future years anticipated revenues would not be impacted. Therefore, the State's \$150 million contribution will be directly tied to the excess liquor tax payments for Michigan's 83 counties.

Tax Free! An American First

The Cobo Hall expansion and renovation legislation package will create the first completely tax free sales zones for an American convention center. Under the legislation, all sales on the floor of a qualified Michigan regional convention facility will be exempt from the state sales tax. This will benefit Michigan consumers, bolster the state's tourism industry, and provide a tremendous incentive to attract new out-of-state conventioners to Michigan convention sites. This is precisely the type of new and creative thinking we need to spur economic growth and diversify our economy.

Cobo Modification Chart

Robert Ficano's \$323 million plan for Cobo Expansion

	Ficano's December 2006 Plan	Ficano Plan Modified December 2007
Construction Cost	\$425 million	\$323 Million
Square foot Expansion	270,000	120,000
Operational Endowment	\$180 million, generating approx. \$14 million annually	\$142 Million, generating \$9 million annually
Purchase of Cobo from Detroit	Yes	Yes.
State of Michigan Contribution	Not included.	\$150 Million, Presented the State with Several different methods of contribution that are available for consideration.
Tax Extension	22 years	7 years.
Tax Free Zone	Phase 2	Fully integrated into legislation.

Collateral issues tied to Cobo Hall Expansion Proposal

	Ficano's December 2006 Plan	Ficano Plan Modified December 2007
Advance Payment to Counties from Excess Liquor Tax Distributions	\$233 Million	\$150 Million from State of Michigan Contribution
Benefit to Statewide Substance Abuse Agencies from Excess Liquor Tax Distributions	\$116.5 million	\$75 million
Defeating Current Cobo Hall Debt	\$110 Million	\$110 million.

Cobo Evolution Time Line

The following chart is helpful in showing the evolution and series of compromises that have taken place over the past several years. These plans show the progress that has been made not only in reducing the construction costs associated with modifying and improving Cobo Hall, but also in addressing the ancillary issues associated with improving operations at the convention center.

	CH Johnson proposal presented to DMCVB 2004	December 2006 Ficano Introduces a <u>Template</u> for a Plan	Patterson's November 2007 Proposal	Modified Ficano Plan December 2007
Construction Cost	\$1.05 Billion (Construct a new site at Old Tiger Stadium)	\$400 Million	\$287 Million	\$287 Million
Covered Walkways to Hotels	NO	Yes. \$25 million	NO	Yes. \$25 million
Operational Endowment Fund to attract private management	Not Addressed	\$14 Million per yr (\$180 Million endowment)	\$7.2 Million Per Yr. (\$90 Million endowment)	\$9 Million Per Yr
Advance Payment to Counties from Excess Liquor Tax Receipts	Not Addressed	\$233 Million	Not Addressed	Pay Off Counties early at a discount
Purchase of Cobo from City of Detroit	Not Addressed	\$20 Million	\$0. City retains ownership but a Regional Authority will control and manages	\$20 Million
State of Michigan Contribution	Not Addressed	\$0	\$1 Million annual sales tax credit, plus additional state contribution to offset loss of excess liquor tax distributions to counties ¹	\$150 Million. Presented the State with Several different methods of contribution that are available for consideration.
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Tax Extension	Not Addressed	22 yr. extension of hotel and liquor tax	13 year extension of existing hotel tax plus new hotel tax created for the rest of the SEMCOG region; 17 year dedicated cigarette tax; no liquor tax extension.	7-year extension of existing hotel and liquor tax.
Tax Free Zone for purchases made during convention shows	N/A	Phase 2	Thinks it is good idea	Fully integrated into legislative package to occur simultaneously with Cobo Expansion
Creation of Regional Authority to allow Private management	Not Addressed	Regional Board	Regional Board	Regional Board

¹ This estimate is based upon the loss of \$30 million in annual liquor tax distributions to counties over a 12 year period (\$360 million total state contribution). Furthermore, a \$1million annual sales tax credit is flawed because this would not benefit a governmental regional authority.